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SUBJECT: CBERA/CBTPA HAS NEGLIGIBLE EFFECT ON PANAMA'S EXPORTS TO THE U.S.

REF: STATE 65843

SUMMARY:

¶1. (U) This is a brief overview of the effect of Caribbean Basin Economic Recovery Act (CBERA)/ Caribbean Basin Trade Promotion Act (CBTPA) on foreign direct investment (FDI) and on Panama's exports to the U.S. While there is limited FDI data, export data show that the majority of products from Panama enter the U.S. duty free under most favored nation (MFN) status. However, the CBERA/CBTPA significantly benefits sugar and non-traditional fruit exports from Panama. The benefits Panama receives under the program would be made permanent and expanded upon ratification of the U.S.- Panama Trade Promotion Agreement (TPA) signed on June 28, 2007.

¶2. (U) While CBERA/CBTPA has a positive impact on certain Panamanian exports to the U.S. particularly for non-traditional fruits, Post, GOP agencies, and industry contacts are unable to identify new investment specifically tied to CBERA/CBTPA benefits. The GOP neither maintains data on CBERA/CBTPA related investment activity, nor tracks FDI by company. GOP and industry contacts were unable to identify any CBERA/CBTPA specific investments during 2006. END SUMMARY

FOREIGN DIRECT INVESTMENT OVERVIEW

¶3. (U) In 2006, Panama received \$2.56 billion in FDI. This represented a 149% increase from the 2005 amount of \$1.02 billion (source: Contraloria General of the Republic of Panama (www.contraloria.gob.pa/dec/)). FDI is generally targeted to the banking sector and the Colon Free Zone. The most recent country specific FDI data (2004) shows that U.S. FDI declined from \$142 million in 2002 to \$70 million in **¶2004**. Despite this decline U.S. FDI to Panama was the third highest in 2004, and second highest during the three year period from 2002-2004 (Annex 1).

COLON FREE ZONE

¶4. (U) Most products exported from the Colon Free Zone are textiles and electronics. As U.S. is not a prime export market for these exports, the CBERA/CBTPA does not significantly affect these products.

EXPORTS OVERVIEW

¶15. (U) Panama's economy is about 75% services based. According to the Controller General of GOP, Panama's total exports for 2006 was \$1.02 billion, of which \$393 million (38%) were to the U.S. (Contraloria General of the Republic of Panama www.contraloria.gob.pa/dec/Comercio_Exterior/). The U.S. and Panama figures differ due to differences in how each country calculates the value of and categorizes each product. The trends, however, tend to move in the same direction (Annex 2). This analysis uses the U.S. export figures because the tariffs goods face are based on U.S. classifications.

¶16. (U) In 2006, Panama's exports to the U.S. totaled \$337.6 million according to U.S. trade statistics (United States International Trade Commission: US Imports for Consumption at Customs Value from Panama.) Of the top three exports, valued at \$212.7 million, \$7.4 million would be subject to tariffs in the absence of the CBERA/CBTPA. The top ten exports, valued at \$289.40 million, comprised 85% of total Panamanian exports to the U.S. Among the top ten exports, some \$51.5 million worth received duty free tariff privileges pursuant to the CBERA/CBTPA. In the absence of the CBERA/CBTPA these products would have faced varying ad valorem or unit tariffs.

TOP THREE EXPORTS

¶17. (U) In order of rank, Panama's top three exports to the U.S. consisted of fish, exports of goods imported for repairs, and precious/semi-precious metals. These categories combined represented 63% of the total value of exports from

Panama to the U.S. In rank order, the remaining seven exports were sugar, fruits/melons (non-traditional fruits), coffee/tea, aluminum, glassware, electrical machinery/equipment, and wood products.

Fish

¶18. (U) The top export, fish, was valued at \$101.9 million and made up 30.1% of total exports. Shrimp made up a significant portion of these fish exports (40%). Most fish exports were duty free under Most Favored Nation (MFN) status. However, one type of flat fish, with a value of \$197,600 and representing 0.2% of fish exports, would have faced a unit tariff of 1.1cents/kg in the absence of the CBERA/CBTPA.

Repaired Goods

¶19. (U) This category largely represented exports of articles imported for repairs. These goods totaled \$75.7 million (approximately 22.4% of exports). Most items in this category were exported duty free under MFN tariffs. However, \$6.5 million (8.5%) of these goods were imported duty free pursuant to the CBERA/CBTPA and were exempt from tariffs equivalent to 50% of the cost of repairs.

Precious/ Semi-precious Metal

¶10. (U) Precious/semi-precious metals were not only the third largest exports to the U.S. but also the fastest growing category in 2006. From 2005 to 2006, it had grown by 82% to a value of \$35.1 million or 10.4% of exports. The CBERA/CBTPA benefited \$725,200 (2.07%) of this category that would have otherwise been subject to tariffs between 3% and 13.5%.

EXPORTS MOST AFFECTED BY CBERA/CBTPA:
Sugar and Non-traditional Fruit Exports

Sugar

¶11. (U) All sugar products would face tariffs in the absence of CBERA/CBTPA. It is the fourth highest export, and accounted for \$23.5 million of total exports in 2006. Without the CBERA/CBTPA sugar would be subject to tariffs between 0.94 cents/kg and 1.46 cents/kg.

Non-traditional Fruit Exports

¶12. (U) Non-traditional fruit exports are comprised of melons, papaya, pineapples, mangoes, and other fruit. This category comprised \$9.7 million of total exports, and 78% of which was affected by the CBERA/CBTPA. These items would have faced ad valorem tariffs between 1.6% to 29%, or unit weight tariffs of 1.1 cents/kg. Although these exports grew by 34% in 2006, they declined by 27% in the first quarter of 2007 (compared to the first quarter of 2006).

COMMENT:

¶13. (U) While only 18% of Panama's top ten exports benefit from the CBERA/CBTPA, the benefits are not significant in dollar terms. Also, while the CBERA/CBTPA is considered important in boosting the growth of non-traditional fruit exports, such exports to the U.S. are currently less than \$13 million per year (U.S. figures). The recent June 28, 2007 signing of the TPA will encompass and expand the benefits currently granted to Panama under the CBERA/CBTPA.

END COMMENT

Annex 1: FDI by country (2002 -2004)
(In millions of \$USD)

Country	Year 2002	2003	2004	Rank 2002-2004
Spain	22.0	46.0	253.1	1st
United States	142.1	85.0	70.8	2nd
Japan	-23.4	108.0	61.2	3rd
Switzerland	5.6	60.8	52.8	4th
Hong Kong	-0.2	46.2	72.1	5th
Global FDI	98.4	817.6	1,003.8	

(Source: Contraloria General of the Republic of Panama)

Annex 2: Exports from Panama to the U.S.
(in millions of \$USD)

	U.S. Source			Panama Source		
	2005	2006	% Chg	2005	2006	% Chg
Total	319.9	337.6	5.53%	419	392	-6.44%
Value of Exports						
Selected Products						

Fish -14.86%	104.5	101.9	-2.49%	323	275	
Repaired Goods	68.1	75.7	11.16%	N/A	N/A	N/A
Precious 211.02% Metals	19.3	35.1	81.87%	3.54	11.01	
Sugar -10.12%	29.1	23.5	-19.24%	23.92	21.5	
Non-traditional 102.58% (melons & other fruit)	9.3	12.5	34.41%	16.29	33	

U.S. Source:

United States International Trade Commission:

U.S. Imports for Consumption at Customs Value from Panama
(dataweb.ustic.gov)

Panama Source:

Contraloria of the Government of Panama:

Panama's Exports

(www.contraloria.gob.pa/dec/Comercio_Exterior/)

Eaton